

**EXECUTIVE SECRETARIAT****Routing Slip**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI		✓		
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	W/OECON		✓		
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SUSPENSE \_\_\_\_\_  
Date \_\_\_\_\_

Remarks:

Received 1230 hrs 5/5/82  
 Copy to Chm/NIC 5 May 82  
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 C/DCI  
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Executive Secretary

5/5/82

Date

3437 (10-81)

25X1

THE WHITE HOUSE  
WASHINGTON

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## CABINET AFFAIRS STAFFING MEMORANDUM

Executive Order

82-4999/1

DATE: 4/4/82 NUMBER: 068930CA DUE BY: 1

SUBJECT: CABINET COUNCIL ON ECONOMIC AFFAIRS -- May 5 Meeting

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Gray	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Mike Wheeler	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Larry Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

## REMARKS:

The Cabinet Council on Economic Affairs will meet tomorrow at 8:45 AM in the Roosevelt Room. The agenda and background paper on item #3 are attached.

The paper on agenda item #2 was circulated to you 4/27/82 in advance of the April 28 CCEA meeting (068915CA) but was not discussed at that meeting. Discussion of item #1 will be a continuation of the Monday, 5/3/82, CCEA discussion; and the related paper was circulated in advance of that meeting (068922CA). No additional papers will be distributed.

## RETURN TO:

☐ Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs  
456-2823

☒ Becky Norton Dunlop  
Director, Office of  
Cabinet Affairs  
456-2800

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Attachment

THE WHITE HOUSE

WASHINGTON

May 4, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*  
SUBJECT: Agenda and Papers for the May 5 Meeting

The agenda and papers for the Wednesday, May 5 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is a discussion of the preparations for the Versailles Economic Summit. This is a continuation of the discussion at the Monday, May 3, meeting and will be based on the papers already distributed on April 30. ✓

The second agenda item is a review of the economic and financial conditions in the agricultural sector. Secretary Block has requested the opportunity to brief the Cabinet Council on the current economic and financial outlook in the agriculture. A paper from him on this subject was distributed to Council members on April 27. ✓

The third agenda item is a discussion of the Latin American Debt Situation. A paper from Assistant Secretary of the Treasury Marc Leland reviewing the Latin American debt situation with particular reference to Argentina, Mexico, and Brazil, is attached.

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Attachment

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

May 5, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Versailles Economic Summit (CM#234)
2. Economic and Financial Conditions in the Agriculture Sector (CM#130)
3. Latin American Debt Situation (CM#248)



## DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

## MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: MARC E. LELAND *ml*  
ASSISTANT SECRETARY  
INTERNATIONAL AFFAIRS

SUBJECT: Latin American Debt Situation

Outstanding debt of Latin America and Caribbean countries totalled around \$240 billion at end-1981. Argentina, Brazil, Mexico, and Venezuela accounted for three-fourths of the total. The debt situation in Argentina is now of serious concern, largely as a result of the Falkland dispute, but also due to underlying economic problems. Mexico faces an immediate liquidity and economic adjustment problem. Mexican reserves have been seriously depleted and the GOM's ability to arrange sufficient financing to cover its current needs is in doubt. While the level of Brazilian debt and Brazil's ability to service it in 1980 and 1981 was of concern, the situation has now stabilized and the rate of increase in outstanding debt has slowed. Although U.S. bank exposure is high in Venezuela, no problems are envisioned. This memo provides further background on the situations of Argentina, Mexico, and Brazil.

Argentina

Argentina's military occupation of the Falkland Islands on April 2, 1982, and subsequent military, economic, and political developments have had serious adverse implications for the GOA's creditworthiness. Argentina's total external debt stood at \$34 billion at the end of 1981, an increase of \$7 billion over the end of 1980. Of that total, approximately \$22 billion is bank debt, of which approximately \$9 billion is owed to U.S. banks.

Even before the Falkland Islands dispute, poor domestic economic performance characterized by rampant inflation, declining output, and -- until recent months -- a widening public sector deficit had cooled the ardor of foreign private lenders and the GOA faced higher spreads and shorter maturities for debt contracted in 1982.

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The uncertainty caused by Argentina's confrontation with the U.K. has now effectively cut off Argentina's access to new private medium and long-term credit, has reduced the flow of new short-term credits, and threatens to impede the normal rollover of existing short-term credits. Over the medium term, Argentina faces sharply higher borrowing costs and reduced overall credit access, as banks tighten country lending limits to Argentina in light of the country's diminished economic prospects and uncertain political future.

Even before U.K. military action against Argentina, most lenders had adopted a cautious "wait and see" attitude. Specifically, lenders attempted to limit themselves to routine disbursements on existing lines of credit. Several Argentine syndicated loans which were in the process of being placed on April 2 were either withdrawn or postponed. New short-term lending proceeded cautiously before nearly drying up during the third week of the crisis. However, rollover of existing short-term commercial credits continued with few exceptions (e.g. several Japanese banks and a few European institutions). Despite the imposition of exchange controls by Argentina, capital flight has accelerated as evidenced by a \$345 million decline in reserves during the first three weeks in April.

Most lenders recognize that a disruption of rollovers to Argentina could force a liquidity crisis that would trigger mounting arrearages and, ultimately, a request for commercial debt rescheduling. Although creditors have been reluctantly willing to roll over these credits, severe damage has already been done to Argentina's creditworthiness. Most lenders expect, at a minimum, that the cost of credit to Argentina will increase, with spreads rising from 1.125 - 1.250 percentage points over LIBOR to 2 points or more over LIBOR. Even so, the supply of new credit will still prove inadequate to cover Argentina's needs. The net result will be a continued loss of reserves for the balance of 1982 with a growing risk of a forced commercial debt rescheduling by the end of the year.

#### Mexican Economic Situation

Mexico has an immediate foreign liquidity problem. It is nearly out of reserves. Restoration of confidence in the willingness and ability of the GOM to implement strong corrective measures is the key to overcoming the current financial crisis. There has been a great deal of confusion following the 40% mid-February devaluation and dirty float of the peso and the announcement of two weak economic packages in mid-February and mid-March. On April 21 the GOM announced a third much tougher stabilization plan which includes tighter fiscal and monetary policies and limits on foreign borrowing. The new program contains a number of appropriate targets, but is not

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specific enough on how they would be achieved. In addition, there is good reason to be skeptical about implementation of the program in light of the past overly expansionary economic policies and current pre-election environment.

Mexico's total external debt totalled over \$65 billion at end-1981. Debt to banks reporting to the BIS totalled \$50 billion at end-September 1981. At the end of 1981 U.S. bank claims exceeded \$20 billion. U.S. bankers are taking an increasingly negative view of Mexico, at least in the short-term. They report that they are very close to their self-imposed lending ceilings and are unlikely to raise them. The cost of borrowing for Mexico will increase, perhaps hidden to a degree by higher front-end fees. Some report a 3/8 percentage point increase in spreads in recent weeks, with current charges about 1 1/2 points over LIBOR.

We believe the GOM must immediately begin implementation of a sound, convincing stabilization program, given the rapid deterioration of the economic situation in the last two months, the extremely low level of international reserves, the continued large foreign borrowing requirements (\$11 billion net public sector borrowing for 1982) and a continued serious lack of confidence in GOM economic policies. Given the market's skepticism, recourse to the IMF (which could provide a maximum of \$4 billion (450% of quota) over three years), a step they have said they will not take, may be an important part of restoring confidence. There are rumors that Mexico has begun negotiations for a \$4 billion "jumbo" loan. We will know in a matter of weeks whether the GOM will be receiving the medium and long-term credit necessary to tide it over until the elections.

### Brazil

Anxiety over Brazil's external debt eased significantly in 1981 as stabilization measures took hold. As a result, Brazil had no problem in financing its current account deficit of \$11.7 billion, which permitted external debt to grow to more than \$61 billion.

Although the balance of payments remains the overriding concern of economic policy this year, austere policies are being tempered by a desire to stabilize, but not necessarily stimulate, a weak domestic economy. The results are likely to be an uncomfortable compromise with inflation drifting only slightly lower than recent 90 percent rates, real GDP gains of 3 percent (compared to a decline of 3.5 percent in 1981) and further (but not dramatic) improvement in the trade accounts. Again, little net reduction will occur in the current account deficit because of the growing interest burden. As a result, the deficit will still be around \$11.2 billion this year.

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Adequate financing of the payments deficit, however, will still be forthcoming, but with little or no improvement in terms. External debt will probably grow to \$71 billion by the end of 1982 -- still disturbingly large by most traditional indicators. However, as long as domestic policy stays on course, Brazil's creditors appear to be willing and capable of providing adequate external finance.

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